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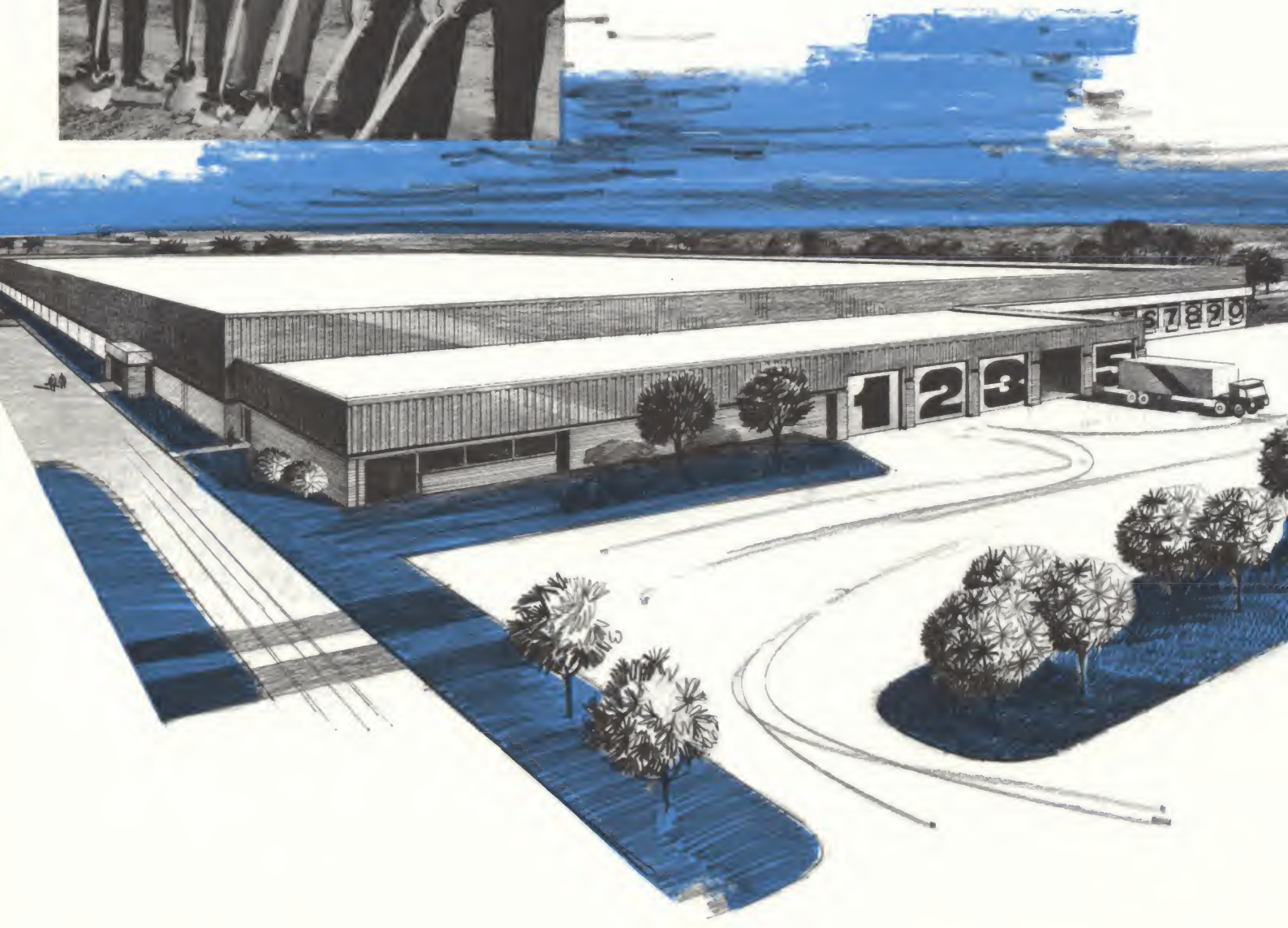
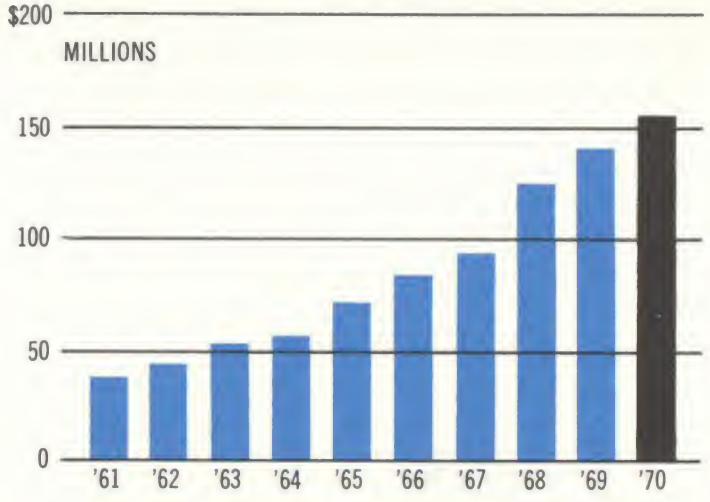
Gray Drug Stores, Inc./1970 Annual Report

New drug division distribution center

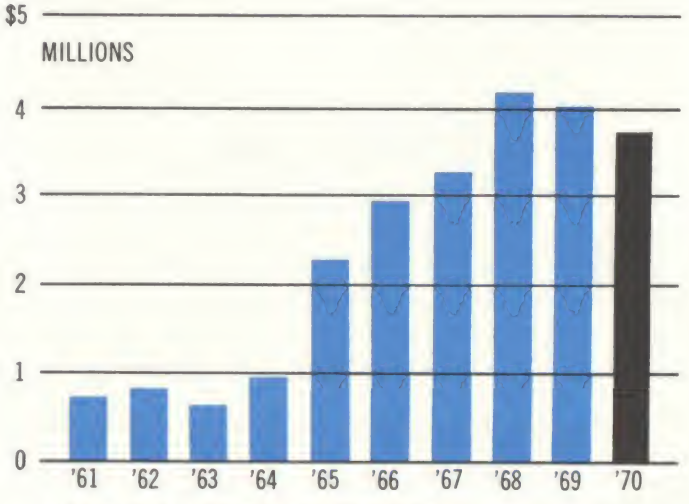
Ground was broken in August for 276,000 square foot center to serve the drug division. The facility, located on a 27½-acre site in the Cleveland suburb of Valley View, will more than double present warehousing capacity for the drug division and is designed for future expansion. It is scheduled to be operational by early summer, 1971. Shown below are an architect's drawing of the building and the ground breaking ceremonies with from right to left: Adolph Weinberger, honorary chairman of the board; Jerome A. Weinberger, president and chief executive officer; Marvin L. Kahn, senior vice president, drug division; Stanley Morash, president, Leonard H. Krill Company, the general contractor; Valley View Mayor A. C. Allen and Herbert H. Durr, vice president.



Sales



Net Income



Operations

Fiscal Years Ended June 30	1970	1969
Net Sales	$155,964,997	$140,752,138
Income Before Federal Income Taxes	$ 7,447,338	$ 7,432,460
Net Income	$ 3,747,338	$ 4,040,460
Net Income Per Share	$ 2.25	$ 2.43
Dividends Per Share	$ 1.20	$ 1.20
Working Capital	$ 22,986,096	$ 23,074,329
Current Ratio	1.9 to 1	2.3 to 1
Shareholders' Equity	$ 29,178,363	$ 27,426,073

Stores and Leased Departments

Years Ended June 30	1970	1969	1968	1967	1966
Gray Drug Stores	119	115	113	113	114
King Discount Drug Stores	15	14	22	22	16
Leased Dept's in Stores of Other Retailers	26	24	21	25	26
Department Stores	23	22	22	8	7
Total Outlets Excluding Intra-Company Leased Dept's	183	175	178	168	163
Leased Dept's Operated by Our Own Divisions in Stores of Other Divisions	31	28	25	19	10
Stores Remodeled and Enlarged	23	26	28	30	32

Letter to Shareholders

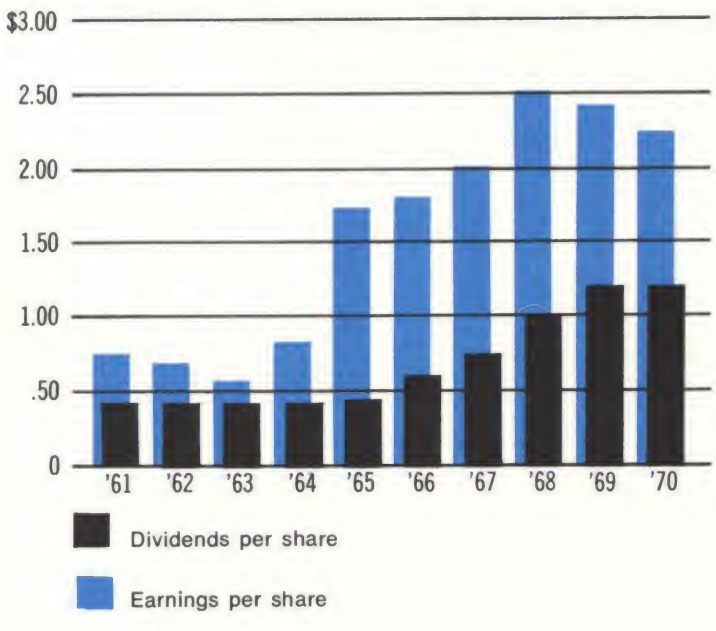
In spite of the slack economy of the past year, Gray Drug Stores, Inc., achieved record sales and earned the second highest pre-tax income in its history.

Even more important, the Company is well along with new expansion programs undertaken in the interest of future sales and profit progress.

Income before taxes was up slightly to $7,447,338, compared with $7,432,460 a year ago. Net after taxes was $3,747,338 or $2.25 a share, compared with $4,040,460 or $2.43 a share for the preceding year. Year-ago figures included a year-end addition of 15 cents a share from prior years' income tax settlement, while this year's results benefited by about 5 cents a share from reduction of the surtax.

Sales were $155,964,997, an increase of 11 per cent over the $140,752,138 for fiscal 1969. This was a new record, and our sales have now increased for 20 consecutive years.

Dividends per Share/Earnings per Share



Growing Momentum

Drug division sales including our Superior Laboratories film processing plants totaled approximately $91,000,000 during the past year, an increase of 8 per cent, and sales of discount department store divisions were nearly $65,000,000, up 16 per cent. We are strengthening our position as one of America's principal drug chains, and at the same time, department store operations are steadily gaining in importance as a major element in our growth.

Extensive expansion programs are now well along in all divisions, and our outlook is much stronger than it was a year ago.

At that time, growth planning had been severely restricted for an eight-month period due to merger talks which had just been terminated. New union contracts and large pay increases for pharmacists involved amounts too large for immediate recovery through normal operations.

Today, the results of our fully renewed expansion programs are becoming apparent, profit improvement programs are having an increasing impact, and corporate policies to maintain large-scale growth on a long-range basis are well-established.

Current scheduling calls for the opening of two large new distribution centers and possible expansion of another, for opening of 14 new drug division outlets this fiscal year with more in the negotiation and planning stage, for early opening of a large new discount department store and construction and expansion of several others. These programs are establishing a foundation for a new era of major growth during the years ahead.

184 Drug Division Outlets

The drug division opened eight conventional stores during the past year and closed two. New stores in Ohio

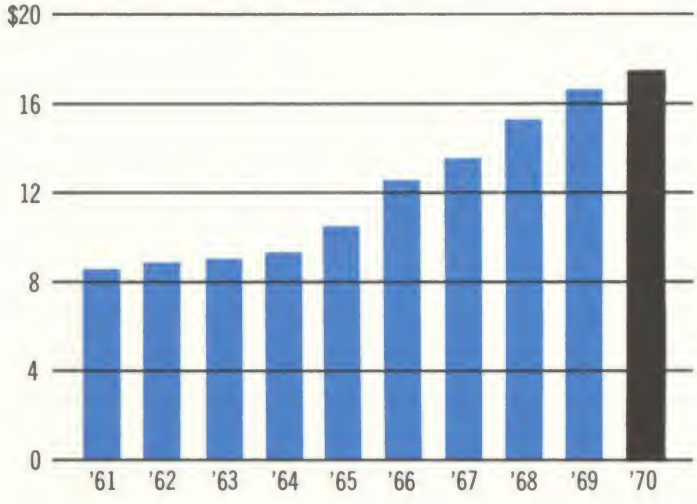
include the Richland Mall at Mansfield, Dayton Mall, Eastland Mall in Warren, Southland Mall in Marion, Southern Park in Youngstown, and Westerville Square in Columbus. A new store was opened in a shopping center at Pompano, Florida, and one was purchased at Hallandale, Florida.

One free-standing King discount drug store was opened and two were closed, and five leased prescription, health and beauty aids departments were opened, three in our own department stores.

At the fiscal year-end, the drug division was operating 119 conventional drug stores, 15 discount stores, and 50 leased drug departments, approximately half of them in our own department stores. This is a total of 184 outlets, nine more than at the preceding fiscal year-end.

During the current fiscal year, conventional drug stores have already been opened in Bowling Green, Ohio, in downtown Cincinnati, and in the Beaver Valley Mall in Pennsylvania. Other new Ohio stores are scheduled for the Belden Village shopping center in Canton, Greenwood Mall in Toledo, and the Alliance Mall. A store has been purchased and remodeled in Berea, Ohio. We also will open new stores at the Chautauqua Mall in Lakewood, New York, and the Oakland Mall in Fort Lauderdale, Florida. In addition, five new leased departments in discount department stores are scheduled.

Book value per Share



Growth Is Essential

Gray Drug recognizes that a substantial growth rate is essential in drug division operations to offset rising expenses and increase profit. The pay increases of the past year cut sharply into profits. While union contracts provide for additional increases during the current year, these will be in a lesser percentage than those effective a year ago. Also, drug division profit performance improved steadily throughout the year until the final quarter, when the trucking industry strike handicapped operations for a number of weeks.

The drug division now is at a point where any acceleration in its rate of sales increase would be immediately translated into profit improvement. Many programs to attain this objective are under way and leased departments in particular have been a bright spot, due to rearrangement of merchandise for stimulation of sales.

Drug outlets of all types are attractive, modern, and well-stocked with quality products. Our program of placing large and inviting cosmetic departments in the front of each outlet remains very successful.

Gray Drug pharmacists last year filled 5,040,000 prescriptions, representing a dollar volume of $18,225,000 or 8 per cent more than the preceding year.

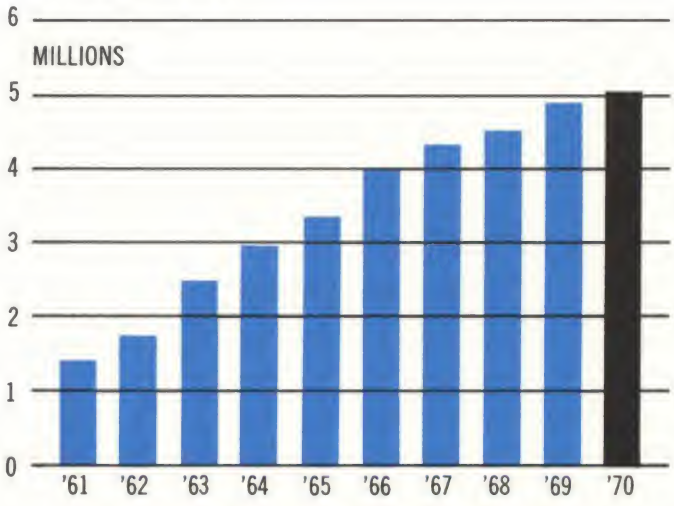
Photo departments in each store generate profits from direct sales of photographic products and through a growing flow of exposed film for developing at our

processing plants in Cleveland and Columbus. The large new Cleveland plant is proving efficient and productive, and is benefiting from a number of outside contracts in addition to the business provided to it by our own retail outlets.

Prescriptions, cosmetics, photographic supplies, health and beauty aids, giftware, candies, wines and soft drinks, greeting cards, soft-cover books and magazines, school supplies, household maintenance items and other products sold by our drug division are in demand during recessionary periods as well as boom times.

Also, most of our outlets are in fast-growing suburban areas where population expansion is an important plus.

Prescriptions



New Distribution Center

To accommodate the substantial current growth of the drug division and to provide a base for its long-range expansion, the Company is now constructing a new 276,000 square foot drug division distribution center in suburban Cleveland.

The new center, which will more than double present warehousing capacity of the drug division, is being built on a 27½-acre industrial park site adequate for future expansion of the facility to 462,000 square feet in size. Total cost of the land, building and equipment will be approximately $4,500,000. We will occupy the center under a lease with option to purchase.

The new distribution center, a one-floor concrete and anodized metal building with an interior balcony, is expected to be in operation by late spring or early summer of 1971 and will serve nearly all of our drug division outlets. It will be highly mechanized and computerized for maximum efficiency. Also, its size will enable us to purchase many additional products in large quantity lots at lower prices than otherwise possible.

Department Store Progress

The continuing large increase in sales volume of the Rink's and Bargain City department store divisions during the past year is particularly significant in view of the fact that their physical expansion was quite limited . . . with only one new store opened late during the year. By contrast, both Rink's and Bargain City plan major expansion programs during the current fiscal year.

Total sales volume generated in our 23 discount department stores increased 13 per cent to $125,013,000 during the past year. Of this total, $19,361,000 represented intra-Company sales . . . through drug division leased departments in both Rink's and Bargain City stores, and through Rink's operation of leased apparel departments in many Bargain City stores. Such sales were up 14 per cent. Another $40,769,000 in sales were generated by other leased departments operating in Rink's and Bargain City stores. While sales of leased

departments other than our own are not included in our reported sales figures, rental income by other lessees adds to net profit. Direct sales by Rink's and Bargain City in their own stores totaled $64,883,000, an increase of 16 per cent over the preceding year.

The fact that intra-Company relationships were responsible for approximately 12 per cent of total corporate sales last year indicates how well the operations of our various divisions tie together, with opening of a new department store providing business for one or more other divisions.

Both Rink's, headquartered in Cincinnati, and Bargain City, headquartered in Toledo, have fine reputations in the regions they serve, and corporate policy provides for their steady expansion through opening of new stores in a growing number of cities within or adjacent to the general areas they now serve. This policy of continuing expansion from a strong regional base is, of course, the same basic policy that has led to the success of our drug division over the years.

Both Rink's and Bargain City have grown rapidly as a part of Gray Drug and while we expect drug division operations to keep growing substantially as they have for 20 years, department store volume is becoming an increasingly larger factor in our total sales picture. This is important, because profit margins of the department stores traditionally are higher than those of drug division operations.

The Rink's Division

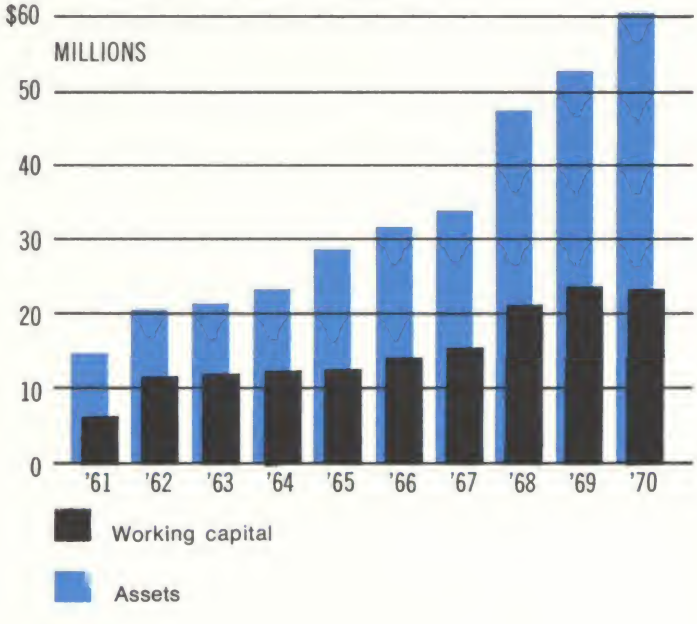
Sales of Rink's during the past year, with no new stores opened, were up 18.4 per cent to $37,014,000 . . . and profits kept pace with sales. Sales of leased departments in the nine Rink's stores were $34,303,000, also ahead of a year ago.

Rink's management believes this progress, during a period when department store sales in its area were generally down, reflects increasing customer awareness of its ability to provide good products at reasonable prices.

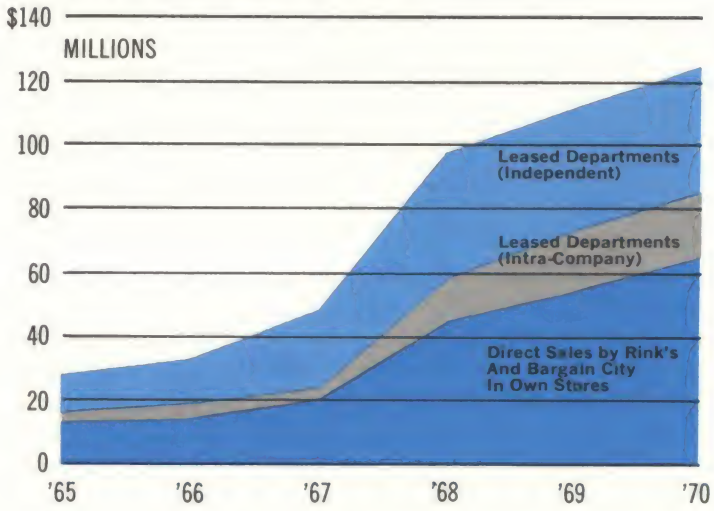
All departments shared in its sales growth. Sales of sporting goods were very strong and ready-to-wear apparel volume also was outstanding, particularly in children's wear. Rink's did not sell on credit until a year-and-a-half-ago, and credit business now accounts for nearly a sixth of its volume. The chain has always been known for its strength in soft good lines, and has been developing an increasing reputation in hard goods as well.

Contributing to Rink's reputation is a service shop which enables it to assure customers of continuing good maintenance on mechanical products purchased at Rink's stores, particularly power mowers. In addition to general mower repair, the shop assembles lawn mowers under the Rink's label. Parts for power motors, from bolts to engines, are packaged by the shop staff

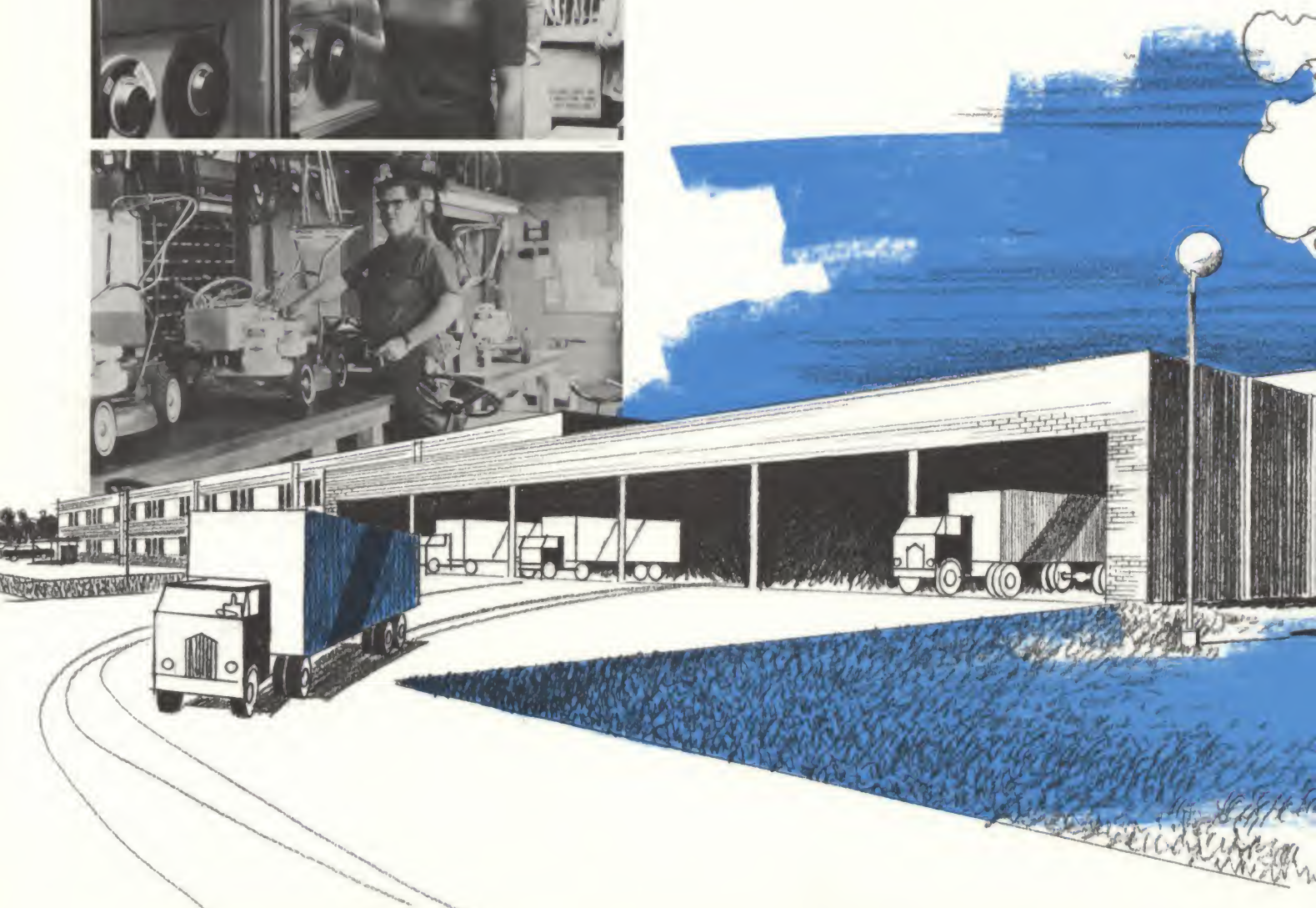
Working Capital/Assets



Department Store Sales



Gray Drug entered the discount department store field with the acquisition of Rink's Department Stores effective July 1, 1964, and acquired the Bargain City Division as of July 1, 1967. Both of these divisions have grown rapidly as a part of Gray Drug, and sales generated in their 23 stores totaled $125,013,000 during the past fiscal year . . . including $40,769,000 in leased department sales by independent operators, $19,361,000 in sales of leased departments operated by our own divisions, and $64,883,000 in direct sales by Rink's and Bargain City in their own stores. Sales of leased departments other than our own are not included in our reported sales figures, but such departments contributed $1,560,000 in rental income to Rink's and Bargain City in fiscal 1970. Views at left show new computer installation at Rink's and part of its lawn mower repair and service shop. Artist's sketch below shows new Bargain City headquarters and distribution center due to open shortly.



for sale by the thousands from display racks in Rink's stores, and a specially equipped repair truck is used for field service and work at individual stores.

Also contributing to the division's progress is an IBM 360 System 20 computer installed during the past year. Sales and inventory reports and other information programs are now handled through the computer, as is control of fashion merchandise and reordering. Additional jobs will be programmed through the computer shortly.

Rink's has just finished a major addition to its store in Florence, Kentucky. It is planning construction of two new 100,000 square foot department stores in the Dayton area within the next year.

Bargain City Division

Bargain City sales increased 13.6 per cent to $27,869,000 during the past year, and leased departments in its stores accounted for another $25,826,000 in sales, up substantially. As with Rink's, profits kept pace with sales.

Virtually all of Bargain City's growth was internal. It opened one new store late in the year in a Toledo shopping center, buying the lease of an existing store and remodeling and remerchandising it to the Bargain City formula. Initial volume under Bargain City has been double that obtained by the previous operator.

Bargain City now operates 14 stores, large units ranging up to 100,000 square feet in size. As with Rink's, supermarkets under other ownership are usually located on the same premises.

Tire, battery, and automotive stores and service centers opened adjacent to two Bargain City stores on an experimental basis a year ago have now reached profitable operation, and sales of automotive products have been very good.

Sales of other hard good lines in which Bargain City's traditional strength lies continue at high levels . . . including such items as tools, paint, hardware, plumbing supplies, electrical parts, housewares, gifts, appliances, jewelry, sporting goods, lawn and garden supplies and toys.

Bargain City's growth during a year when there was substantial consumer resistance nationally to many of the "big ticket" items featured in its appliance departments is significant in indicating its basic growth momentum.

It is just finishing a 10,000 square foot addition to its Bowling Green store, and a new 75,000 square foot store will be opened in Toledo next month, adding to its suburban ring of outlets around this city. Another 75,000 square foot store to replace an existing smaller outlet at Maumee is under consideration.

The division's biggest undertaking has been construction of a new 190,000 square foot headquarters and distribution center in an industrial park at Toledo.

This will be finished shortly, replacing four existing warehouses and providing core facilities for steady expansion into new areas in Ohio, Indiana and Michigan.

Financial Condition

Gray Drug is in excellent financial shape to meet its commitments for major expansion.

Current assets of $47,747,278 at the fiscal year-end were in a 1.9 ratio to current liabilities. Working capital was $22,986,096. Net worth was $29,178,363 or $17.55 a share. Long-term debt is in the form of a bank term loan extending to 1975.

Dividends of 30 cents a quarter or a total of $1.20 a share were paid during the past fiscal year. Gray Drug has paid a cash dividend during every year since 1929, our first year in business.

Organization

Three new corporate vice presidents have been elected. They are Hyman R. Swolsky, president of the Bargain City Division; Herbert S. Ives, chief operating officer of Rink's; and Edward P. Habegger, corporate real estate manager.

The promotions reflect the increasing importance of the Company's discount department store operations as well as growing emphasis on the establishment of new retail drug store outlets.

Lloyd C. Douglass, who capably directed corporate financial divisions over a long period, has retired from his position as a vice president of the Company. Mr. Douglass will be available as a consultant for future projects, and the Company will continue to benefit from his knowledge and experience.

Gray Drug today is made up of 4800 employees, representing a tremendous reservoir of experience in the chain drug and department store industries. Modern management techniques are emphasized in our operations, and even more important, our people are growth-oriented, and receptive to all new ideas that can help to build a stronger and more profitable operation.

While the past 18 months have been difficult in many respects, our people have met all challenges with hard work and enthusiasm, to launch new growth projects and extensive profit improvement programs in every division.

These programs are assisted by a constantly increasing flow of information from a computer system as sophisticated as any in our industry. Programming is under way for installation of our fourth generation of computers in the near future.

Acquisition Search

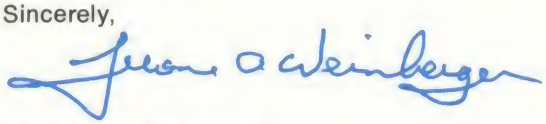
The high interest rates and other economic factors prevailing during the past year obviously did not create a good climate for acquisition. However, Gray Drug has continued an active acquisition search. A number of important acquisitions have been made over the years. When and if opportunities arise for acquisitions which promise major benefits to the Company, we have the experience, financial strength and desire to bring other companies into our organization.

Looking Ahead

Gray Drug, a large organization today, will continue to grow substantially during the current fiscal year.

We expect several experimental programs currently under way to produce substantial sales and profit improvement in the next two years. In addition, completion of two major new distribution centers within the next 12 months will contribute to operating efficiency and establish a broader base for continuing major expansion on a long-range basis. We look to a good year, and any strengthening of the national economy will add to our opportunities.

Sincerely,



Jerome A. Weinberger,
President and Chief Executive

September 25, 1970

Consolidated Balance Sheet

Gray Drug Stores, Inc. and Subsidiaries

Assets

	JUNE 30, 1970	1969
CURRENT ASSETS		
Cash	$ 2,932,498	$ 3,903,025
Accounts receivable, less allowance of $40,000 (1969 — $30,000)	1,595,877	1,276,430
Inventories — priced generally on the basis of the lower of cost (latest) or replacement market	42,502,024	35,254,695
Prepaid expenses	716,879	469,715
TOTAL CURRENT ASSETS	47,747,278	40,903,865
OTHER ASSETS	464,095	439,215
PROPERTY AND EQUIPMENT — on the basis of cost		
Land (1970 — $471,806; 1969 — $469,889) and buildings	538,560	542,461
Furniture, fixtures and equipment	8,187,402	7,749,493
Leasehold improvements	4,356,024	3,920,797
	13,081,986	12,212,751
Less allowances for depreciation and amortization	5,592,152	4,968,467
	7,489,834	7,244,284
GOODWILL — Note A	4,638,338	4,164,321
	$60,339,545	$52,751,685

Liabilities and Shareholders' Equity

	JUNE 30, 1970	1969
CURRENT LIABILITIES		
Notes payable to banks	$ 4,057,160	$ 1,073,528
Trade accounts	13,704,306	10,105,780
Other liabilities and accrued expenses	3,031,662	2,595,463
Taxes other than federal income taxes	941,143	906,952
Federal income taxes	1,930,835	2,051,738
Current portion of long-term debt	1,096,076	1,096,075
TOTAL CURRENT LIABILITIES	24,761,182	17,829,536
LONG-TERM DEBT — Less current portion — Note B		
Note payable to bank	6,400,000	7,200,000
Payable under acquisition agreement	—0—	296,076
	6,400,000	7,496,076
SHAREHOLDERS' EQUITY — Note C		
Common Stock, par value $1 a share Authorized — 3,000,000 shares Outstanding — 1,662,540 shares	1,662,540	1,662,540
Capital in excess of par value	9,207,297	9,207,297
Earnings retained for use in the business — Note B	18,308,526	16,556,236
	29,178,363	27,426,073
LONG-TERM LEASE COMMITMENTS AND CONTINGENT LIABILITY — Notes D and G		
	$60,339,545	$52,751,685

See notes to financial statements.

Statement of Consolidated Income and Earnings Retained for Use in the Business

Gray Drug Stores, Inc. and Subsidiaries

	YEAR ENDED JUNE 30, 1970	1969
Net sales	$155,964,997	$140,752,138
Rent from leased departments	1,559,945	1,483,584
Other income	374,034	349,767
	157,898,976	142,585,489
Costs and expenses:		
Cost of goods sold	105,352,047	95,046,077
Selling, general, and administrative expenses	42,900,157	38,209,508
Depreciation and amortization (computed principally by the straight-line method)	1,320,722	1,271,545
Interest expense	878,712	625,899
	150,451,638	135,153,029
INCOME BEFORE FEDERAL INCOME TAXES	7,447,338	7,432,460
Federal income taxes — Note E	3,700,000	3,392,000
NET INCOME	3,747,338	4,040,460
Earnings retained for use in the business at beginning of year	16,556,236	14,510,824
	20,303,574	18,551,284
Cash dividends declared	1,995,048	1,995,048
EARNINGS RETAINED FOR USE IN THE BUSINESS AT END OF YEAR	$ 18,308,526	$ 16,556,236
Per share of Common Stock:		
Net income	$2.25	$2.43
Cash dividends declared	1.20	1.20

Statement of Consolidated Source and Application of Funds

	YEAR ENDED JUNE 30, 1970	1969
SOURCE OF FUNDS		
From operations:		
Net income	$ 3,747,338	$ 4,040,460
Depreciation and amortization which did not affect working capital	1,320,722	1,271,545
TOTAL FROM OPERATIONS	5,068,060	5,312,005
Proceeds from bank borrowings	—0—	2,000,000
Decrease in other assets and miscellaneous	—0—	34,264
Working capital	88,233	—0—
	$ 5,156,293	$ 7,346,269
APPLICATION OF FUNDS		
Expenditures for property and equipment — net	$ 1,566,272	$ 2,209,537
Current maturities of long-term debt	1,096,076	1,096,075
Goodwill purchased	474,017	405,324
Cash dividends declared	1,995,048	1,995,048
Increase in other assets and miscellaneous	24,880	—0—
Working capital	—0—	1,640,285
	$ 5,156,293	$ 7,346,269

See notes to financial statements.

Notes to Financial Statements

Note A — Goodwill:

Under the terms of a purchase agreement relating to the acquisition of certain companies, the Company is making additional payments of the purchase price in the amount of 50% of the annual combined net income (as defined) of such companies through June 30, 1971, and adding such amounts to goodwill.

Goodwill at June 30, 1970, represents the excess of cost of investment in purchased companies over their recorded net assets at acquisition dates. Because there has been no diminution in the values attributable to goodwill, the Company does not now intend to amortize such amount.

Note B — Long-term debt:

The note is payable to a bank in quarterly installments of $200,000 each through March 31, 1975, and a final installment of $3,400,000 on June 30, 1975, and bears interest at the prime commercial rate (8% at June 30, 1970) plus ¼%. The terms of the agreement include covenants covering maintenance of working capital and limiting payments of cash dividends and other capital distributions (as defined). Under the more restrictive of these covenants, earnings retained for use in the business of approximately $7,829,000 were available at June 30, 1970, for distribution to shareholders.

Included in the current portion of long-term debt is the final installment ($296,076) of that portion of the purchase price of certain companies which is based on their book value (as defined) at date of acquisition.

Note C — Shareholders' equity:

Under the Company's stock option plan, options for the purchase of 50,000 shares of Common Stock may be granted to officers and key employees at not less than the market price of the shares at date of grant. Options granted become exercisable, cumulatively, to the extent of one-fourth annually beginning one year from date of grant and expire five years from date of grant. At the beginning of the year, options for 32,250 shares were outstanding at $46.25 a share. During the year options for 7,430 shares became exercisable and options for 2,500 shares were terminated. At June 30, 1970, options for 29,750 shares were outstanding at $46.25 a share and 20,250 shares were reserved for future grants.

There were no changes in the Common Stock and capital in excess of par value accounts for the years ended June 30, 1969, and June 30, 1970.

Note D — Long-term lease commitments:

The Company and its subsidiaries are lessees under a number of leases extending over various periods up to twenty-five years. The annual aggregate minimum rental payable under such leases (many of which provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $5,245,000 at June 30, 1970.

In August, 1970, the Company entered into an agreement to lease a warehouse which the Company intends to occupy in 1971. The lease will require annual rentals of approximately $467,000 for thirty years, beginning February, 1972.

Note E — Federal income taxes:

The provision for federal income taxes for the year ended June 30, 1969, includes a reduction of $252,000, representing prior years' provisions no longer required.

Note F — Pension plans:

The Company and its subsidiaries have two noncontributory pension plans covering certain of their employees. Total pension expense for the year ended June 30, 1970, was approximately $374,000, including amortization of past service costs to the retirement age of participants. The Company's policy is to fund pension cost accrued.

Note G — Contingent liability:

The Ohio Department of Taxation has examined sales tax returns of the Company and certain of its subsidiaries covering the calendar years 1966 through 1968 and assessed additional sales tax. The companies object to the assessments and have filed petitions for reassessment with the State Tax Commissioner. If settlement of this controversy results in additional sales tax exceeding a reserve provided in prior years, the excess, if not material in relation to the results of operations for the year of settlement, will be charged thereto; if material, such excess will be charged to operations of the years to which the assessments relate. Although the outcome of this matter presently is not determinable, it is the opinion of management that there will not be a material effect on the financial statements.

Accountants' Report

Shareholders and Board of Directors
Gray Drug Stores, Inc.
Cleveland, Ohio

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1970, and the related statements of consolidated income and earnings retained for use in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, subject to the effect of the matter referred to in Note G, the accompanying statements identified above present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1970, and the consolidated results of their operations, changes in shareholders' equity, and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Cleveland, Ohio
August 31, 1970.

Ten Years of Progress

	1970	1969	1968	1967	1966	1965
Net Sales	$155,964,997	$140,752,138	$124,899,300	$93,598,735	$83,352,705	$73,570,697
Net Income Before Federal Taxes on Income	$ 7,447,338	$ 7,432,460	$ 7,698,566	$ 6,087,794	$ 5,581,032	$ 4,337,653
Net Income	$ 3,747,338	$ 4,040,460	$ 4,193,766	$ 3,256,894	$ 2,912,432	$ 2,176,053
Income per Common Share (1)	$ 2.25	$ 2.43	$ 2.52	$ 2.01	$ 1.79	$ 1.72
Income as a Percentage of Sales	2.40%	2.87%	3.36%	3.48%	3.49%	2.96%
Income as a Percentage of Shareholders' Equity	12.84%	14.73%	16.52%	14.73%	14.53%	16.55%
Cash Dividends Declared — Common Stock	$ 1,995,048	$ 1,995,048	$ 1,662,540	$ 1,202,550	$ 858,805	$ 568,641
Dividends Per Share (1)	$ 1.20	$ 1.20	$ 1.00	$ .74	$ .59	$ .45
Number of Shares Issued (1)	1,662,540	1,662,540	1,662,540	1,625,040	1,625,040	1,266,664
Net Working Capital	$ 22,986,096	$ 23,074,329	$ 21,434,044	$15,077,210	$13,786,368	$12,431,574
Total Assets	$ 60,339,545	$ 52,751,685	$ 47,565,850	$33,533,717	$31,711,280	$28,532,091
Long Term Debt	$ 6,400,000	$ 7,496,076	$ 6,592,151	—	—	$ 5,141,300
Shareholders' Equity	$ 29,178,363	$ 27,426,073	$ 25,380,661	$22,099,435	$20,045,091	$13,144,946
Book Value Per Share (1)	$ 17.55	$ 16.50	$ 15.27	$ 13.60	$ 12.34	$ 10.38
Fixtures and Leasehold Additions	$ 1,565,531	$ 1,956,545	$ 1,661,586	$ 1,465,563	$ 1,141,939	$ 1,184,347
Depreciation	$ 1,320,722	$ 1,271,545	$ 1,166,604	$ 982,297	$ 967,289	$ 869,409
Units in Operation — End of Year	214	203	203	187	173	158

(1) Based upon the number of shares outstanding at the end of each year adjusted to reflect a stock split of 3 for 1 on September 30, 1960, a 3 for 2 stock split on September 30, 1966, and a 5 for 4 stock split on November 6, 1967.

1964	1963	1962	1961
$57,320,337	$51,875,334	$44,952,417	$39,626,661
$ 2,011,104	$ 1,399,066	$ 1,611,213	$ 1,467,793
$ 946,404	$ 662,366	$ 801,113	$ 707,793
$ .80	$ .56	$ .68	$ .76
1.65%	1.28%	1.78%	1.78%
8.78%	6.41%	7.87%	9.04%
$ 503,723	$ 503,723	$ 476,335	$ 393,062
$ .43	$ .43	$ .43	$ .43
1,180,601	1,180,601	1,180,601	931,429
$12,132,632	$11,692,984	$11,599,620	$ 6,218,365
$22,764,138	$21,203,745	$20,296,698	$14,195,991
$ 5,141,300	$ 5,230,000	$ 5,230,000	$ 2,139,200
$10,783,652	$10,340,971	$10,182,328	$ 7,826,699
$ 9.13	$ 8.76	$ 8.62	$ 8.40
$ 813,084	$ 923,337	$ 713,221	$ 901,411
$ 731,322	$ 758,985	$ 667,295	$ 663,750
151	152	134	117

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Gray Drug Stores, Inc.

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Chairman of the Board
Gray Drug Stores, Inc.

Marvin L. Kahn
Senior Vice-President, Drug Division
Gray Drug Stores, Inc.

C. Bert McDonald
Managing Partner
McDonald & Company

John W. Reavis
Managing Partner, Jones, Day, Cockley & Reavis

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Vice-President
Gray Drug Stores, Inc.

David M. Thoburn
Senior Vice-President
The Cleveland Trust Company

Adolph Weinberger
Honorary Chairman of the Board
Gray Drug Stores, Inc.

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President and Chief Executive
Gray Drug Stores, Inc.

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Cleveland, Ohio
Chemical Bank
New York, N. Y.

Registrar
The Central National Bank
Cleveland, Ohio
The Chase Manhattan Bank
New York, N. Y.

Stock Listed
New York Stock Exchange
Midwest Stock Exchange

Auditors
Ernst & Ernst
Cleveland, Ohio

Counsel
Jones, Day, Cockley and Reavis
Cleveland, Ohio

Main Office
666 Euclid Ave.
Cleveland, Ohio 44114

Warehouse
2400 Superior Ave.
Cleveland, Ohio 44114

Rink's Division Headquarters
201 W. Crescentville Road
Cincinnati, Ohio 45246

Bargain City Division Headquarters
3115 Frenchmen Road
Toledo, Ohio 43607

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